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ABSTRACT

This study analyzes Census data which indicate the following U.S. poverty trends for 1988: (1) the gap between rich and poor is wider than at any point in the post World War II era; (2) the poverty rate showed no improvement and remains higher than the most severe recession years of the 1970s; (3) the share of the national family income going to the middle fifth of families was the lowest ever recorded; (4) per capita income rose due to the continued surge of income for wealthy households; (5) median household income remained stagnant for the second consecutive year; and (6) the income of the average poor family fell $4,851 below the poverty line. The data indicate that the following factors are responsible for the poverty trends: (1) economic factors; (2) cuts in government benefit programs; and (3) demographic shifts. The possibility of using an alternative poverty line set by the Census at $855 lower than the official poverty line is discussed. Four graphs and one table are included. (JS)

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## POVERTY RATE AND HOUSEHOLD INCOME STAGNATE AS RICH-POOR GAP HITS POST-WAR HIGH

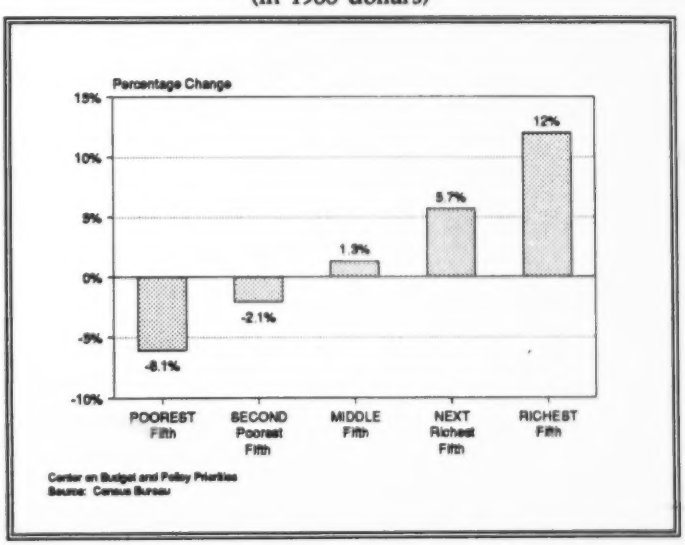
Despite a sixth year of economic recovery, both the nation's poverty rate and the income of the typical U.S. household showed no significant improvement in 1988 -- while the income gaps both between rich and poor and between the rich and the middle class hit their widest point since the end of World War II -- the Center on Budget and Policy Priorities reported.

The Center noted that although the nation is in the longest peacetime recovery of the post-war period, the poverty rate remains higher than in any year of the 1970s, including the most severe recession years of that decade.

"The data provide disturbing new evidence of the unevenness of the recovery -- and the extent to which its economic benefits are disproportionately going to those at the top of the income spectrum and missing many at the bottom," Center director Robert Greenstein said.

The new Census data show that 13.1 percent of all Americans -- some 31.9 million people -- fell below the poverty line in 1988. (The poverty line was $9,435 for a family of three.) The Census

Average Income Gains & Losses Between 1979 and 1988,
By Fifths of All Families
(in 1988 dollars)

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Bureau said that these numbers represented no statistically significant change from 1987, when 13.4 percent of Americans were poor. Similarly, there was no significant change in poverty rates among whites, blacks, or Hispanics.

Poverty was more serious than in any year of the 1970s, however, including the recession years of 1974 and 1975. "It is disappointing when the poverty rate for the sixth year of a recovery exceeds the rate for the worst recession year of the previous decade," the Center said.

The Center compared poverty data for 1988 with data for 1979. These years represent similar points in an economic recovery, and the unemployment rate was similar in both years, the Center said (5.8 percent in 1979; 5.5 percent in 1988). However, the poverty rate was substantially higher in 1988 than in 1979 (when it was 11.7 percent).

The Center added that since the economy now appears to be slowing and the unemployment rate has stopped dropping, significant improvement in the poverty rate is unlikely in 1989 or in the next few years.

"Poverty is likely to be stuck at about the 1988 level for some time to come if the economy continues on its current course," the Center said.

## Growing Gap Between Rich and Poor

The Census data provide new evidence that the failure of a significant improvement in poverty is related to a marked unevenness in the distribution of economic benefits from the recovery. The Census data show that the income gap between rich and poor families was wider in 1988 than in any year since the Census Bureau began collecting these data in 1947, the Center said.

The wealthiest fifth of all families received 44 percent of the national family income in 1988, the largest share ever recorded, the Center said. By contrast, the poorest fifth of families received 4.6 percent of the national family income, one of the lowest proportions on record and tied for the lowest since 1954.

Income Distribution of American Families
in 1988

| Population Category | Percentage of Total National Family Income Received | Comment |
|---|---|---|
| Poorest Fifth | 4.6% | Lowest since 1954 |
| Second Poorest Fifth | 10.7 | Lowest ever recorded |
| Middle Fifth | 16.7 | Lowest ever recorded |
| Next Richest Fifth | 24.0 | |
| Richest Fifth | 44.0 | Highest ever recorded |
| Richest five percent | 17.2% | Highest since 1952 |
| Middle Three-fifths | 51.4 | Lowest ever recorded |

Center on Budget and Policy Priorities
Source: U.S. Census Bureau

The Center also reported that the share of the national family income going to the middle fifth of families was the lowest ever recorded. Similarly, the share of national family income going to the middle three-fifths of all families (all families except those in the richest and poorest fifths) was the lowest recorded since 1947.[1]

The data demonstrate that the gap between rich and poor -- and the gap between the rich and the middle class -- are wider than at any point in the post World War II era, the Center said.

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[1]The Census Bureau also publishes data on the distribution of household (as distinguished from family) income. "Households" include both families and people who do not live in families, such as individuals living alone. The data on the distribution of household income go back to 1967.

These data show the same pattern as the data on the distribution of family income. Both the gap between rich and poor households -- and the gap between rich and middle class households -- were the largest on record.

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The Center noted that the trend toward increasing inequality in the distribution of income started in the late 1960s, but said this trend escalated over the past decade.

Other data from the new Census report tell the same story, the Center said. The Center noted that from 1979 to 1988 the average income of the poorest fifth of families fell 6.1 percent, after adjustment for inflation, while the average income of families in the middle fifth remained essentially unchanged, rising a scant 1.3 percent. However, the average income of the top fifth rose 12 percent -- or $9,100 per year. And the average income of the wealthiest one-twentieth of all families rose 15.6 percent -- or $17,900 per year.

## Per Capita Income

The Center noted that the growing gap between rich and poor -- and the continued surge in income for wealthy households -- helps to explain why per capita income rose in 1988 while median household income stagnated.

"The per capita income figure represents *average* income of all individuals -- and when the income of the wealthy rises substantially, this pulls the average up," the Center said. It noted that the average income of the wealthiest fifth of families rose nearly $1,800 from 1987 to 1988, while average income for the wealthiest five percent of families rose more than $4,000.

While the per capita income figure is somewhat misleading as an indicator of how typical middle income or poor families are faring, the figure for median household income tells how a household exactly in the middle of the income spectrum is doing, the Center said. Median household income remained stagnant in 1988 for the second consecutive year.

## Poor Have Grown Poorer

Given these income data, it is not surprising that the Census Bureau's poverty tabulations show that those who were poor have grown poorer in recent years, the Center reported. The income of the average poor family fell $4,851

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below the poverty line in 1988. While this was not significantly different than the figure for 1987, it represented a larger average "poverty gap" than in any other year since 1960.

In addition, the proportion of the poor falling into the "poorest of the poor" category -- those with incomes below half the poverty line (below $4,718 for a family of three) was as high or higher than at any other time in the past 15 years. Two of every five poor Americans fell into the poorest of the poor category in 1988.

**Factors Behind Poverty Trends**

While the new Census report does not attempt to explain the reasons for these trends, other data from the Census Bureau and other official sources indicate that economic factors, cuts in government benefit programs, and demographic shifts have all played a role, the Center said.

On the economic front, wages have declined. The Center cited Labor Department data showing that in 1988, the average wage for non-supervisory workers fell to its lowest level since 1965, after adjusting for inflation. The year 1988 also marked the seventh consecutive year without a rise in the minimum wage, the longest such stretch since the wage floor was enacted 50 years earlier.

The Center noted that the Census data issued today show an increase in 1988 in the proportion of poor family heads who are full-time year-round workers, and an accompanying decline in the earnings of the typical full-time male worker. The Center added that full-time work at the minimum wage generally raised a family of three above the poverty line in the 1960s and 1970s, but left such a family $2,500 below it in 1988.

Reductions in government benefit programs at both federal and state levels have also played a role, the Center said. It cited Census data showing that the proportion of poor families lifted from poverty by government benefits has declined sharply since 1979.

An increase in the proportion of families headed by a single female parent has also contributed to the poverty trends, the Center said, but it cautioned that

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the impact of this development should not be overstated. The proportion of poor people that live in female-headed families was only slightly higher in 1988, when 38 percent of the poor lived in these families, than in 1979, when 36.1 percent did.

## Alternative Poverty Line

The Center also looked at an "alternative poverty line" reflected in an appendix to the Census report. In addition to the official poverty line, the Census Bureau issued data using an alternative poverty line, set $855 lower for a family of three than the official poverty line. Under the alternative poverty measure, the poverty line would be $8,580 for a family of three. Under this alternative measure, 3.6 million fewer people would be considered poor.

The alternative poverty line was developed by using an alternative measure of inflation to adjust the poverty line, retroactively, for all years from 1967 to 1982. Since the alternative measure of inflation produces lower inflation rates for those years, the result is a lower poverty line for those years -- and for all years since then.

The Center questioned the soundness of the alternative poverty measure. The Center noted that there are a number of serious technical questions about where to set the poverty line. Addressing some of the most serious technical shortcomings of the current poverty line would result in a *higher* poverty line rather than a lower one. An examination of *all* issues involved in setting the poverty line would be much more appropriate, the Center said, than simply selecting one of these issues -- and using it to develop a lower poverty line while ignoring the other important issues.

The Census Bureau's own report seems to make a similar point, the Center noted. It states that which "CPI index is most appropriate is only one of many issues surrounding the accuracy of the current poverty definition. The resolution of some of the other poverty definition questions would have considerably more impact on the number of poor and [the] poverty rate."

The Census report then lists some of these other issues, including several that could result in significant increases in the poverty line and in the number of people considered poor.

## Lower Poverty Line Would Cause Program Cuts

The Center noted that the Office of Management and Budget has authority to set the poverty line administratively. If it were to ignore these other issues and make the alternative poverty line the official poverty line, substantial cutbacks in many programs for the poor would result. "Since the poverty line is used to set eligibility limits for a large number of low income programs -- such as food stamps, free school lunches, Medicaid, and Head Start -- several million low income people could be made ineligible for these programs, Greenstein said.

"Hardest hit would be low income working families," he added. "Families on welfare are usually far below the poverty line, because welfare benefits are set at low levels in most states. A substantial number of low income working families, however, have incomes closer to the poverty line. They would stand to lose benefits and other types of assistance if the poverty line were reduced."

The Center on Budget and Policy Priorities is an independent, nonprofit research organization in Washington, D.C., specializing in the analysis of data and policy issues affecting low and moderate income Americans.

This analysis was a joint effort of the staff of the Center on Budget and Policy Priorities. Contributing to the analysis were Robert Greenstein, Scott Barancik, Kathryn H. Porter, Isaac Shapiro, Paul A. Leonard, and Edward B. Lazere.

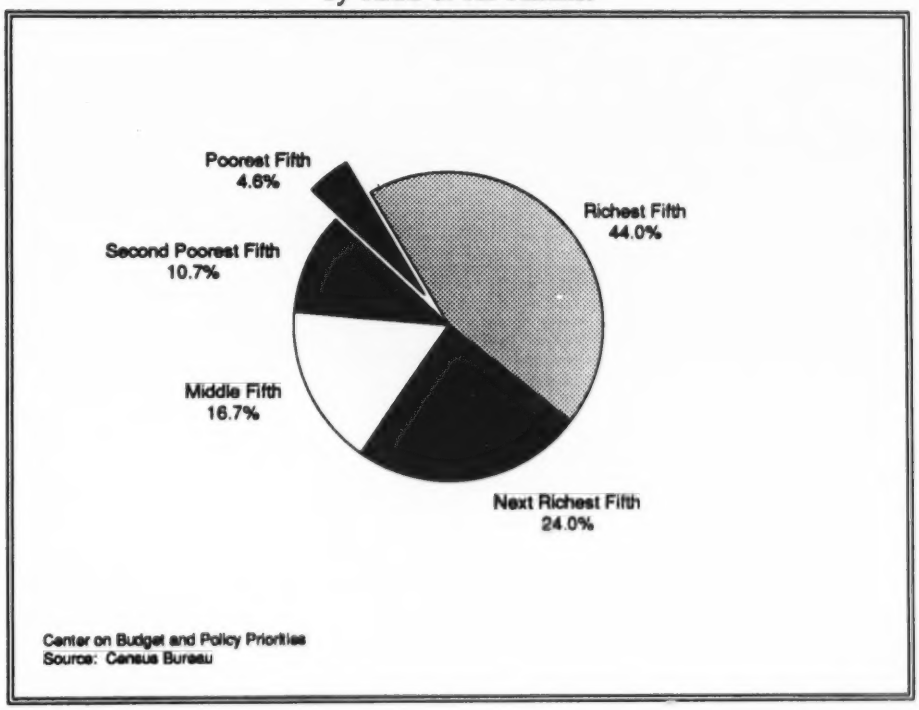
Poverty Data:
1979, 1987, 1988
(Changes from 1987 to 1988 are not statistically significant unless indicated with an asterisk)

| | 1979 | 1987 | 1988 |
|---|---|---|---|
| Unemployment Rate | 5.8% | 6.2% | 5.5% |
| Poverty Rate | | | |
| All Persons | 11.7% | 13.4% | 13.1% |
| White | 9.0 | 10.4 | 10.1 |
| Black | 31.0 | 32.6 | 31.6 |
| Hispanic | 21.8 | 28.1 | 26.8 |
| Child Poverty Rate[1] | | | |
| All Children | 16.2% | 20.3% | 19.6%* |
| White | 11.6 | 15.1 | 14.4 |
| Black | 40.9 | 45.5 | 44.1 |
| Hispanic | 27.8 | 39.4 | 37.8 |
| Elderly Poverty Rate | 15.2% | 12.5% | 12.0% |
| **Number of Persons in Poverty** | 26,072,000 | 32,341,000 | 31,878,000 |
| **Number of Children in Poverty** | 10,198,000 | 12,765,000 | 12,424,000 |

Center on Budget and Policy Priorities
Source: U.S. Census Bureau

[1] For children under 18 in families and unrelated subfamilies

Distribution of Total Family Income in 1988,
By Fifths of All Families



Average Income Gains and Losses
Between 1979 and 1988,
By Fifths of Families
(in 1988 Dollars)